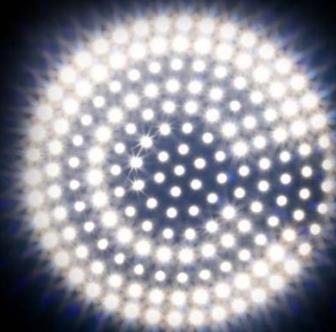


International Tax Mongolia Highlights 2018



Investment basics:

Currency – Mongolian Togrog (MNT)

Foreign exchange control – According to the Settlement in National Currency Act 2009, MNT must be used in transactions between Mongolian entities (except for banks and nonbank financial institutions) and individuals, unless specifically approved otherwise by the central bank. Transactions between Mongolian and foreign legal entities may be denominated in foreign currency. Both residents and nonresidents may hold bank accounts in any currency. There are no restrictions on the remittance of profits, dividends, interest or royalties. The central bank must be notified of loans by foreign lenders.

Accounting principles/financial statements – The Accounting Act 2015 applies. Financial statements must be prepared in accordance with IFRS (for listed companies or companies have applied for listing on a foreign or domestic stock exchange, banks, mining companies, etc.), IFRS for small and medium-sized enterprises (SMEs) or International Public Sector Accounting Standards (applicable to governmental authorities). Companies with one or more subsidiaries must prepare and file consolidated financial statements.

For enterprises that are required to follow IFRS, financial statements must be submitted biannually; the first statement is due on or before 20 July and the annual statement is due on or before 10 February of the year following the calendar year. Enterprises that are required to submit consolidated statements must file their annual financial statements on or before 1 March of the following calendar year. Other enterprises must file their financial statements annually, on or before 10 February of the following calendar year.

Principal business entities – These are the public limited company, closed public limited company, private limited company, partnership and limited partnership. Foreign entities usually establish a subsidiary in the form of a private limited company or representative office. Representative offices may not engage in any income-generating activities and they do not have legal personality.

Corporate taxation:

Residence – A corporation is a resident if it is incorporated in Mongolia or if its place of management is in Mongolia.

Basis – Residents are taxed on worldwide income; nonresidents are taxed only on Mongolian-source income.

Taxable income – Tax is imposed on a company's profits. Taxable revenue includes income from the sale of products, the provision of services, the lease or sale of assets, the sale of shares and other operations.

Taxation of dividends – Dividends received are included in taxable income.

Capital gains – There is no separate capital gains tax; gains from the sale of movable and immovable property are taxed at the standard corporate income tax rates.

Losses – Losses may be carried forward for four to eight years for businesses in the mineral and infrastructure sectors, and up to two years for other businesses. In the latter case, only 50% of losses may be offset against taxable profits.

Rate – Taxable income up to MNT 3 billion is taxed at 10%; the excess is taxed at 25%.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A foreign tax credit is available only if so provided under an applicable tax treaty.

Participation exemption – No

Holding company regime – No

Incentives – Tax incentives or benefits are available to industries in the agricultural and oil and gas sectors.

Innovative businesses are exempt from corporate tax for three years.

The Investments Act applies to both local and foreign investors and provides common legal investment guarantees, mainly in the form of a guaranteed tax environment and stabilization for investments exceeding MNT 30 billion.

Withholding tax:

Dividends – Dividends paid to a resident are subject to a 10% withholding tax (on the gross amount). Dividends paid to a nonresident are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.

Interest – Interest paid to a nonresident is subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.

Royalties – Royalties paid to a nonresident are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.

Technical service fees – Fees billed for services provided in Mongolia are subject to a 20% withholding tax.

Branch remittance tax – Nonresident entities are subject to a 20% profit repatriation tax, unless the rate is reduced under a tax treaty.

Other – All Mongolian-source income from goods and services provided by nonresidents, either directly or via the internet or other electronic means, is subject to a 20% withholding tax.

A 2% withholding tax applies to the sale of real property.

Other taxes on corporations:

Capital duty – No

Payroll tax – An employer must withhold income tax from an employee's wages and remit the tax to the government.

Real property tax – A real property tax is imposed at a rate of 0.6% to 1% of the value of the property.

Social security – An employer is required to pay social insurance, health insurance, benefit insurance, unemployment insurance and industry accident insurance contributions at combined rates of 13.7% to 15.5%,

depending on sector classification. These contributions are deductible in computing corporate income tax.

Stamp duty – Stamp duty refers to government service fees charged on certain actions (e.g. application for company registration, etc.) and is imposed at various rates.

Transfer tax – No

Other – Various excise taxes are levied on tobacco, alcohol, gasoline and passenger vehicles.

Anti-avoidance rules:

Transfer pricing – Transactions between related parties are valued for tax purposes at fair market value. The Corporate Income Tax Act and the General Tax Act define "related parties" and allow the tax authorities to adjust the price of a transaction to reflect an arm's length price if it is above or below fair market value. In April 2017, the Mongolian tax authorities updated its related party transaction reporting form. Taxpayers that have engaged in transactions with related parties are required to prepare and submit the form semi-annually.

Thin capitalization – Certain regulated entities, such as banks, insurance and financial services companies, must maintain a minimum statutory capital. A shareholder's interest-bearing loan is capped at three times the equity contribution.

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – Calendar year

Consolidated returns – Consolidated tax returns are not permitted; each company must file a separate return.

Filing requirements – A company must file and pay corporate income tax on or before the 20th day of the month following the end of each quarter. An annual return must be submitted on or before 10 February of the year following the calendar year.

Penalties – Penalties apply for late filing, failure to file, or the filing of fraudulent returns.

Rulings – Taxpayers may seek tax rulings from the National Tax Administration, but the rulings are not binding.

Personal taxation:

Basis – Mongolian residents are taxed on worldwide income; nonresidents are taxed only on Mongolian-source income.

Residence – An individual is a resident if he/she resides

in Mongolia for 183 or more days during the tax year or maintains a residence in Mongolia or if he/she has a permanent home in Mongolia.

Filing status – Individuals must file separate returns; joint filing is not permitted.

Taxable income – Individuals must include all gross income from whatever source derived in the taxable year. Professionals who work on independent contracts (e.g. lawyers, doctors, architects, accountants, teachers and other independent contractors) are allowed to deduct costs and expenses.

Capital gains – Gross income from the sale of real property is taxed at a rate of 2%. Gains from the sale of securities are taxed at a rate of 10% after deducting the purchase price.

Deductions and allowances – Deductions are allowed for social insurance payments.

Resident individuals working in Mongolia under an employment contract are entitled to a credit in computing the income tax payable. The tax break previously was a fixed amount regardless of the amount of taxable income, it now depends on the employee's taxable income.

Rates – A flat rate of 10% applies to income from employment (a new law that became effective on 1 January 2018 introduced progressive rates on such income, but in February the government repealed the progressive rates and reverted to the flat rate). Income derived by self-employed professionals, including lawyers, doctors, accountants and independent contractors also is taxed at the 10% rate.

As from 1 January 2018, a 20% withholding tax applies to Mongolia-source income paid to nonresidents.

Also effective 1 January 2018, a 10% tax is levied on interest income paid by foreign banks on savings accounts held by Mongolian resident individuals.

Gains from the sale of immovable property are taxed at a rate of 2%.

Income derived from artistic or literary works, performances, sports contests and scientific works is taxed at a rate of 5%.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty refers to government service fees charged on certain actions (e.g. filing a complaint with a court, etc.) and is imposed at various rates.

Capital acquisitions tax – No

Real property tax – No

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – An employee is required to pay social insurance, health insurance, benefit insurance, unemployment insurance and industry accident insurance contributions at a rate of 12.5% of gross salary. Employee contributions are capped at MNT 300,000 per month.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Tax on employment income is withheld by the employer and remitted to the tax authorities. Individuals that have only employment income are not required to file a return. For all other sources of income, an individual must file a return and make a final tax payment on or before 15 February of the year following the tax year.

Penalties – Penalties apply for late filing, failure to file, the filing of fraudulent returns and the late payment of taxes due.

Value added tax:

Taxable transactions – Since 2016, VAT has been levied on the sale of goods and on the provision of services. Certain transactions are exempt from VAT, including transactions in stock or securities, banking services, health services and the sale of gold.

Rates – The standard VAT rate is 10%.

Registration – Taxpayers must register if their taxable sales reach MNT 50 million.

Filing and payment – Monthly payments and filings are due on or before the 10th day of the following month.

Source of tax law: General Taxation Act 2008, Corporate Income Tax Act 2006, Personal Income Tax Act 2006, Social Insurance Act 1994, Value Added Tax Act 2015, Investments Act 2013, Excise Tax Act 2006 and relevant regulations.

Tax treaties: Mongolia has concluded 25 tax treaties.

Tax authorities: National Tax Administration

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